

billion and this would buy time for some of the above solutions to be worked out. In itself it would not solve the payments deficit but it would cut off the "crisis pressure."

The fourth alternate solution would be to stop selling gold at \$35 an ounce, or at any price. In effect, this would be a gold embargo. Other nations would then either close their "gold windows" or keep them open, but in either case the U.S. dollar would tend to depreciate in relation to other currencies as long as we have deficits. This would be an unstable and unsatisfactory situation and would require other nations to devalue irregularly or set up various counteracting forces in order to avoid an export advantage to America in its trading abroad. Presumably it would be immensely complicated by exchange controls and other controls which would handicap international free trade.

If we closed the "gold window" to foreigners the price of gold would rise because we would then have discontinued the policy of dumping gold on the market to hold it down to \$35 an ounce and the demand pressure for gold would increase relatively because of the uncertainties of a worldwide rise in gold prices. However, closing the gold window would slow but not stop the drain on our Treasury gold because U.S. industry buys gold from the Treasury at almost four times the annual U.S. gold mining production rate.

Thus if the gold embargo were continued for an indeterminate period, a fifth alternate remedy would need to be adopted then, or sooner, i.e., an exploration and/or production subsidy on gold for American miners. A subsidy was enacted to encourage uranium production and was very successful. The subsidy could be another "stop-gap" to "bide for time" but on a necessarily long-term approach to give American miners a chance at least to supply our industrial needs for gold.

RECENT GOLD PROPOSALS

On April 6th, the House Banking Committee of the U.S. Congress announced hearings on the legislation releasing some of the Treasury's silver stock from use as backing for silver certificates. The announcement came out about the same time as a disclosure by the U.S. Treasury that the stock of "free" silver had dwindled to less than 100 million ounces for the first time in decades. Only three years ago, it was widely believed that there was a many years' supply of silver in the Treasury's silver stock.

On the same date, April 6th, Mr. Rudolph A. Peterson, President of the Bank of America, in an address before the New York Chamber of Commerce, called for a reappraisal of the U.S. policy for combating the balance of payments deficit and for a relaxation of government controls over foreign lending and investing by American business. He stated that the U.S. piecemeal negative attempts to fix balance of payments problems have failed. And he called for a better understanding of the actual strength of the nation in world economic affairs. What we need, he proposed, is an overall long-range payments strategy which will be economically sound. He noted that the past U.S. approaches on the balance of payments deficit have resulted in short-term tactical moves which have led us astray and caused anxiety abroad about the soundness of the dollar as well as the economic aims of the United States.

One cannot help but agree 100% with this leading banker and especially his desire for a timetable to roll back the pseudo-exchange controls now in existence, i.e., the interest equalization tax and the voluntary restraint program on bankers and corporations abroad. He is taking the strong, long-term forward view on this score and away from the tenets of mercantilism which we are in danger of having imposed upon us more and more.

However, I am puzzled in one respect wherein it is stated that the increases in U.S. short-term liabilities abroad are measures of strength not weaknesses just as increases in deposit liabilities of commercial banks are one criterion of their strength. I understand why deposit liability increases are one criterion of strength for a commercial bank so long as the deposit monies are wisely and profitably invested which is the goal of commercial banking. This type of well-managed banking growth is what made the Bank of America the world's largest bank. Nevertheless, I cannot envisage a commercial bank asking its depositors not to withdraw their deposits because the bank would then be in difficulties (unless as a special plea for continuance as with some CD's). This appears to be the analogy of what the U.S. Treasury is doing by asking certain foreign nations not to cash in their claims for gold. Unfortunately, this cannot prevent a surreptitious liquidation by friendly nations of dollars for tangible U.S. goods.

We knew when the United States incurred short-term liabilities abroad that they could be turned into dollars at will and we had guaranteed that those dollars were convertible into gold at will. However, foreigners are not subject to restrictions about gold as U.S. citizens are. U.S. citizens cannot ask for payment in gold of domestic liabilities as, for example, for Federal Reserve notes. But if foreign central banks have accepted dollars as equivalent to gold, they have a choice later (which we do not have) of asking for final payment in gold. Moreover, in what did the U.S. invest the monies arising from these liabilities abroad? In foreign aid gifts or loans, a domestic deficit, or was it expended abroad for military purposes? Thus, we have no counterpart claims or earnings as a bank has. It is for these reasons that I cannot see the commercial bank analogy in the case of our international short-term liabilities. We simply incur an interest burden when these liabilities grow. To be sure, if we could sell all of our foreign assets, short and long-term and pay off all short and long-term liabilities we would have a surplus of many billions of dollars, but we cannot plan so drastic or far-reaching a liquidation if we are to remain the world's banker and continue free international trading.

Mr. Peterson stated that as a last resort, if the drains on the U.S. gold stock became intolerable, the United States might have to refuse to sell gold. If the Administration can come up with an overall payments strategy which would be economically sound, as Mr. Peterson proposed, there would be no need for the drastic step of putting an embargo on our gold. On the other hand, I would suggest that if the Administration believes that we are going to reach this drastic requirement in the near future, perhaps it should raise the price of gold while we still have sufficient gold in our coffers, which, if doubled, could pay off a substantial part of the current U.S. liabilities abroad owed to central banks and would undoubtedly bring tremendous amounts of gold out of the hoards that investors have been holding as an inflation hedge. This gold undoubtedly would find its way into central bank official gold reserves and answer the gold liquidity problem. It is estimated by one international gold expert that there is between \$20 and \$25 billion of gold locked up in private investors' hands. A price rise for gold would be a sounder action than the removal of the law requiring 25% in gold as a backing of the U.S. national paper currency. Removal of the 25% gold backing would free up nearly \$10 billion of our gold, all of the gold cover, and could cause a drastic run on gold. We all know what happened when Congress removed the small gold backing of commercial bank cash deposits with the Federal Reserve Bank. We lost \$1.5 billion of gold in a half year to "free up" \$4.7 billion of our gold reserves. The

Treasury experts had estimated less than a \$400 million outflow of gold if we removed this "outer perimeter" of our gold protection. We can only conjecture the gold outflow if the 25% cover, the "inner perimeter," is breached, particularly with our payments deficit worsening and prospects of a rapidly increasing domestic budget deficit.

As an economist, recognizing the economic-fiscal impasse where the Administration and the Treasury refuse to revalue gold and have not been able to eliminate the deficit in gold drain, I cannot believe the Bank of America is strategically wrong in suggesting that the United States close the "gold window" under these given circumstances. It seems fruitless to tell the government, in effect, that its firmly reiterated policy is wrong. After all, they are our elected officials. Perhaps time will show them a better solution if they adopt a policy to stop selling gold to temporarily solve the emergency of losing our gold and then see the resultant effect on the dollar.

In my opinion, and I have no inside information, the proposal seems to be a very subtle and complicated approach with an educational purpose. Although it is not the best or most orderly solution, it could be turned into a better solution, later, after the price for its educational effect were paid. Thus it would be a step, though somewhat costly, toward order and better than butting one's head against the Treasury's well-publicized stone wall of \$35 an ounce and the continuing payments deficit.

I cannot pinpoint the cost of closing the "gold door" but the cost of our nation and to the world of losing all of our gold would be far, far greater in effect than the loss of the \$13.1 billion in U.S. Treasury stock. Congress has been spending billions of our dollars in foreign aid to the poorer nations for food and education and billions to fight poverty in our underdeveloped urban areas, including large amounts for education and retraining. The educational effect toward sounder fiscal and national policies in the United States that might be brought about by closing the gold door and noting the results might well be worth the cost. Therefore, I cannot criticize what I believe to be the well thought-out strategic approach to close the "gold window."

I also respect and support the admonitions of the vast majority of banks and most economists that the Administration adopt sound fiscal policies to solve our balance of payments deficit. But what is really to be done, now? Isn't this the overriding question for our national position as the world's international banker and the free world's freedom?

CONCLUSION

In an economy like ours which is geared to emphasize productivity and where politics is geared to popularity, pressures are created which tend to compromise financial and personal integrity. The social ills and fiscal irresponsibility are so much everybody's fault that they become nobody's fault. "Paper gold" solutions are not novel but horse-and-buggy innovations, out of place in a scientific age which needs financial integrity now more than at any other period in history. I could continue to catalog the fiscal-political problems but the big question for the American public remains, "Is the apparent insolvency of this conflict inevitable?" I say it is not inevitable if we guide our national body by diagnosing its economic health periodically with our gold fever thermometer and acting accordingly.

For centuries, gold has been the best money in the world, especially for international trade purposes. He who possesses gold may buy anything that is for sale. This is not always true of other currencies. It is less true of credit. That is why gold is the best hedge against a decline in the purchasing value of a country's currency, or

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conversely, the best known hedge against inflation where such factors are substantial enough to offset the cost of holding a non-earning asset. Over the past hundred years and more so in recent years, the world's leading international monetary experts have explained in books and treatises why gold is such an important and necessary element of any international monetary system under the economic policies of free international trade. Therefore I do not think it is necessary for me to try to explain why gold is so desirable or so useful for this purpose. Rather, it seems to me that all of the debates that have been going on for the past decade, and more intensely so in the past four or five years, have arisen because of the balance of payments deficits of the world's two key currency nations—the United States and Great Britain, and standard solutions are painful.

Since 1948 to the end of 1966, the gold holdings of all free nations rose from about \$33 billion in U.S. dollars to \$42 billion, or an increase of about 27%. World trade, on the other hand, measured by imports alone, more than tripled over that period. If we compare this with the free world gold production which has been rising gradually over the last dozen years and is now running at a little over \$1.4 billion a year and add the supplemental Soviet gold sales of \$300 million to \$400 million in the past years (except 1966), you will note that new supplies are not increasing at as rapid a rate as world trade. In recent years most of the new supplies seem to have disappeared into private hoards, because a look at the tables of official gold stocks discloses that they have risen very slightly since 1960 and not at all in 1966. Also, the gap between the two growth rates is largely made up by increased holdings of foreign currency reserves which are almost entirely in U.S. dollars. These inflationary increases were more than the total growth in the official gold stocks and have arisen primarily from the serious U.S. balance of payments deficits since 1948.

As to the arguments of those who cite current statistics on gold production figures to prove that there is not enough gold increase to supply increased liquidity for world trade, we should remind them that our present gold exchange standard is more flexible than the full gold standard, some say even too flexible. But it still serves as a fever thermometer and the reading is clear. If the United States adopts a realistic policy of equilibrium in its balance of payments and proves it, to the satisfaction of investors, worldwide, then gold should come out of hiding in sufficient quantity to solve the gold increase problem for a score or more years. And if this national policy is also followed by a rise in the price of gold to, say, a minimum of \$70 an ounce it is possible that new discoveries plus increased production in old gold mines ultimately should solve the problem of gold liquidity with respect to international trade requirements for at least a generation. Proteus can then return to Mount Olympus. I cannot speak for the next generation.

One needs to be a philosopher as well as an economist to try to understand the hopes and fears of humans in relation to gold and other forms of money and investors are human, even if some would classify them into a lower order. If I were to adapt an ancient admonition to describe our monetary reformers it would become, "For the love of (control of) money is the root of all (inflationary) evil."

Some people say that if everyone stopped talking about the "gold problem," the problem would disappear. Longer term investors look at the operating facts and financial performance of a nation whose money they own just as carefully as for a company whose securities they own. If, after investigation, the rumors and discussions turn out to be erroneous, the situation is disclosed in short

order. The problem of gold and the U.S. payments deficit is not a sudden, speculative occurrence but has been going on for many years. Until the actual results of our nation's financial performance improves, the gold problem will be with us. It won't be cured by halting the talk or changing the payments accounting rules.

When human nature changes and every man shall work for and with his neighbors, we shall not need gold or any other form of money. Meanwhile, investors must find legal ways to protect their savings even though such self-defense is often criticized by some government officials and money managers.

NASA NEEDS A WATCHDOG

(Mr. ANDERSON of Illinois (at the request of Mr. PRICE of Texas) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

Mr. ANDERSON of Illinois. Mr. Speaker, I believe that the following editorial from the Chicago Daily News will be of interest to all Members of the House of Representatives. It pays a well deserved tribute to the work of my distinguished colleague, Congressman DONALD RUMSFELD, of Illinois, for his effective and thoughtful work as a member of the House Science and Astronautics Committee. His suggestions should be adopted if Congress is to fulfill its responsibility to the American people as the editorial writer points out.

His specific recommendation for an independent safety review board for the Space Agency has ample precedent. For some years the reactor development program of the Atomic Energy Commission has been monitored by an independent board of this type. The Joint Committee on Atomic Energy recently held extensive hearings on the manner in which this review board has functioned. I believe that it is the unanimous view of that committee that it is helpful to have the independent views and recommendations on safety by a group of experts who are not under any obligation to justify or defend administrative actions and decisions by those who are employed by the Government within the executive branch.

I hope the conference committee will heed the recommendations of our colleague, Congressman RUMSFELD.

Mr. Speaker, under unanimous consent, at this point I include the editorial referred to:

[From the Chicago Daily News, July 10, 1967]

NASA NEEDS A WATCHDOG

It will be interesting to see how Rep. Donald Rumsfeld (R-Ill.) fares in his fight to preserve his House-approved safety amendments for the U.S. space program. He has pitted common sense against a formidable combination of space agency arrogance and contractors' vested interest. Both the National Aeronautics and Space Administration and the big space contractors have strong influence in Congress. In such circumstances right doesn't always prevail.

Rumsfeld's proposals, airily rejected by NASA, would:

—Set up an independent safety review board to keep tabs on NASA operations and provide a double check for NASA in spotting dangers.

—Require NASA to keep the two congressional space committees fully informed and up to date on its operations.

—There is ample justification for these requirements.

Part of it can be found in the scandalous record of fumbling, bumbling and pure carelessness unearthed in the investigation of the blazing death of three astronauts at Cape Kennedy last January. Most of the blame was directed at the prime Apollo contractor, North American Aviation Inc., but some of it had to be shared by NASA, with over-all responsibility for the project.

And part of the justification goes back to the condition President Eisenhower alluded to in his famous farewell speech: the perils of an alliance between big government and the big industries that serve it and profit by its contracts.

Congress, the branch of government in closest touch with the people, has a unique obligation to exert discipline over the executive department's workings. In exotic fields like those of the Central Intelligence Agency and NASA there is an understandable tendency to resent such surveillance. But those same agencies, for all the high average caliber of their work, have demonstrated that when supervision is lacking both arrogance and carelessness flourish.

Rumsfeld is serving the public interest in trying to bring NASA to some kind of accounting.

The bill is before a conference committee that begins consideration this week. NASA succeeded in keeping Rumsfeld-type provisions out of the Senate bill, and Rumsfeld himself, while a member of the House Science and Astronautics Committee, was not named to the joint House-Senate committee. There is obviously good reason to fear that, unless public concern is expressed, NASA will quietly work its way on the measure and keep the public's nose out of its "private" affairs.

A LETTER FROM VIETNAM

(Mr. GARDNER (at the request of Mr. PRICE of Texas) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

Mr. GARDNER. Mr. Speaker, I have become more and more concerned about our present policy in Vietnam, specifically why we are not doing more to halt the flow of supplies to North Vietnam. For the information and consideration of my colleagues, I quote the following portions of a letter received from an officer serving aboard a ship in the Western Pacific:

For sometime I have meant to write you on a subject, one which both infuriates me and gives me a sense of deep impotence—the continuous stream of Russian and Soviet bloc ships which we sight daily, indeed hourly, in the Gulf of Tonkin, generally with laden hulls on a northerly course, or riding high heading towards the southeast. As CIC Officer, I am often able to listen in over the radio nets to the many contact reports filed on these Soviet ships, and it is continually paradoxical to me to then read in the next issue of *Stars and Stripes*, *Time*, or *Newsweek*, that some administration official is pledging all efforts to fight this war and bring our men home quickly and safely. And yet, still these ships steam steadily on, unperturbed by political bombast, carrying the materiel to kill American troops.

For one doesn't have to be too perceptive to understand what is being carried in those hulls, or where they are going. While our carrier based planes are bombing the scattered oil, munition and supply depots and lines of communication in North Vietnam, with our pilots risking their lives over murderous barrages of anti-aircraft weapons, the Soviets are shipping in a flood of war supplies to their North Vietnamese and Viet Cong allies, allowing them to maintain their aggression against South Vietnam. I have the